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13th December, 2002

Ms. Ruth Smith
Financial Systems Division - Treasury
Langton Cres.
PARKES ACT 2600

Dear Ms. Smith,

PRIVATE SUBMISSION FOR COMPENSATION FOR LOSS IN THE FINANCIAL SERVICES SECTOR

1.0 The inability to obtain Professional Indemnity Insurance is currently the most serious problem Small Dealers face in Australia

1.1 If the Australian Government, that is, ASIC, insist on strictly worded P.I. insurance as a condition of holding a new Financial Services Act Licence then many Small Dealers could go out of business.

I understand that this is already happening in the United Kingdom - refer attached.

1.2 This would greatly lessen competition in Australia as large institutional dealers would start to dominate.

Large institutional dealers increasingly promote their in-house products reducing competition. The Australian public would suffer.

2.0 What solutions are available?

Lawyers and accountants are advising professionals to divest themselves of assets, that is, asset protection. This will deny consumers reasonable compensation in the event of successful litigation.

2.1 Reasonable P.I. insurance contracts for professionals is the preferred solution.

Governments, both State and Federal, must facilitate meetings between professional bodies and insurance companies.

2.2 Possible P.I. insurance outcomes may be as follows:-

* Group plans for the whole industry with Government backing, e.g. the public liability arrangements recently entered into by Suncorp and the Qld Government. Also federal government backing of medical practitioners.

* Group plans through professional bodies, e.g. The Financial Planning Association, C.P.A.s etc.

If insurers recognise that membership of professional bodies reduces exposure to risk then group plans may be put together particularly for economies of scale.

Sincerely,

IAN DONALDSON CFP B.Com.
Authorised Representative
Donaldson Financial Planning Pty Lt aft The Donaldson Family Trust ABN 34 086 127 553
Please note that recommendations may involve products regulated by the Insurance Act. Some of these products are handled by Donaldson Financial Planning Pty Ltd as trustee for The Ian Donaldson Family Trust

c.c. Richard Farmer - ASIC
Ken Breakspear - FPA

British Industry hit hard as professional indemnity insurance crisis peaks

Andrew Starke

Gordon Brown, the UK's Chancellor of the Exchequer, is to be quizzed on the crisis facing independent financial advisors (IFA) over professional indemnity (PI) insurance.

A question has been tabled by Howard Flight, shadow chief secretary to the UK Treasury, asking if the Chancellor has plans to resolve the PI issue. He has also written to Howard Davies, chairman of the Financial Services Authority, the UK regulator.

Flight says: "This is a serious, practical problem. The last thing the public wants or needs is to lose financial advice because the IFAs are unable to comply with PI requirements."

He adds that problems with professional indemnity insurance had been evident for well over a year and pertained to other sectors as well.

"It is clearly a much wider problem, not just for financial services, that the government should be addressing," Flight says. "I will be asking whether a parallel approach to the government's anti-terrorism insurance last year could be used in the interim."

At stake is whether the FSA will allow IFAs without fully-compliant cover to continue practicing.

A financial services spokesman for the Treasury admits that there had been some increase in PI premiums but denied there was a problem with availability.

He would not comment on excesses or policy wording.

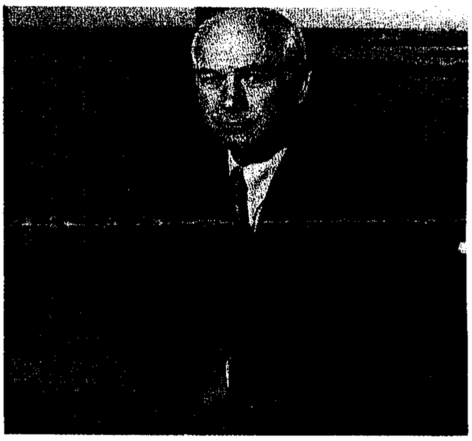
Flight's questions are expected to be put just as the FSA announces changes to its policy on prescribed levels of PI cover.

According to Fay Goddard, Association of IFAs (AIFA) director of policy, the industry is facing a potential crisis over PI cover.

"The PI market has hardened so there is little capacity, and what little there is, is not going to IFAs," Goddard says. "All professions have been hit by high increases and excesses but IFAs are seen as a poor risk. If IFAs cannot renew with their existing provider, either because the insurer has left the market or is cherry-picking, they will find it almost impossible to get cover elsewhere."

AIFA believes the problem is a global one, facing all insurers around the world since the terrorist attacks on September 9 last year and heightened by the bear market.

It cites the Australian market where IFAs have experienced similar problems and the Financial Planning Association has admitted that some smaller dealers may fail as a consequence of the absence of PI insurance availability.



Howard Davies: serious problem

The UK regulator recently began writing to 1200 IFAs who will be trying to renew their PI insurance in November, the peak renewing season.

In the cases of those failing to get compliant cover, the FSA will take a view on each firm's risk level.

A further 40 to 50 IFAs have been sent letters in respect of their failure to find cover before November.

At least one firm of IFAs has refused to comply with a voluntary cease trading order from the FSA after failing to find cover. ⊙